

Manistee Intermediate School District

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2008

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Manistee Intermediate School District (the "District") annual financial report presents a discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2008. It is to be read in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

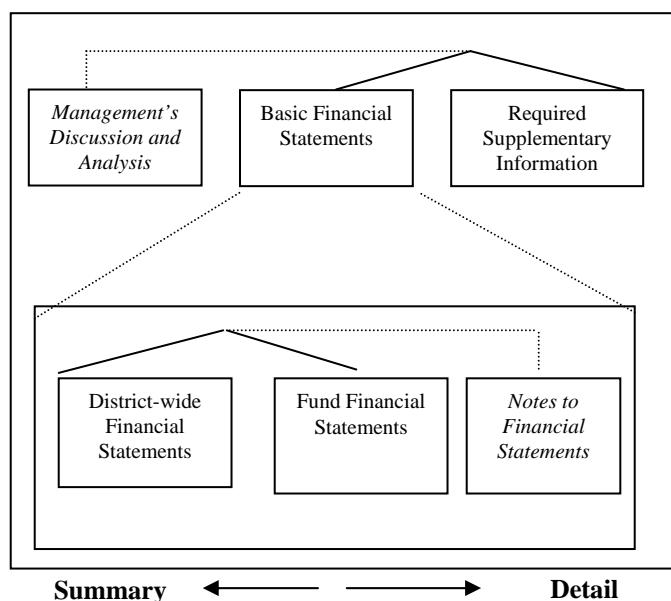
- The District's financial status improved due to increased revenues and flat expenses despite increases in benefits and energy costs. Net assets increased by approximately \$412,000 and fund balances increased by approximately \$280,000, excluding the Capital Projects Fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *district-wide financial statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations *in more detail* than the district-wide statements.
- The *governmental funds* statements tell how *basic* services like regular and special education were financed in the *short-term* as well as what remains for future spending.
- The *proprietary funds* use the accrual basis of accounting; the same as on the government-wide statements, therefore the statements will essentially match the business-type activities portion of the government-wide statements.
- The *fiduciary funds* provide information about assets held by the District in a trustee or agent capacity.

**Figure A-1
Manistee ISD's
Annual Financial Report**



The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

<p style="text-align: center;">Figure A-2 Major Features of District-Wide and Fund Financial Statements</p>				
	District-wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (excluding Fiduciary Funds)	The activities of the District that are not proprietary or fiduciary, such as special education, vocational education and building maintenance	Activities the District operates similar to private businesses; MISD Net and Business Co-op	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of net assets * Statement of revenues, expenses and changes in fund net assets * Statement of cash flows	* Statement of fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long- term	All assets and liabilities, both short-term and long-term
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarized the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

DISTRICT-WIDE STATEMENTS

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statements of net assets include *all* of the District's assets and liabilities, excluding fiduciary funds. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities - are one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, consideration must be given to additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

The District's Activities

The district-wide financial statements include the following:

- Governmental activities - Most of the District's basic services are included here, such as regular and special education, vocational education, transportation and administration. Property taxes and State formula aid finance most of these activities.
- Business-type activities - The Business Cooperative and MISD Net are included here. Charges to other governmental units finance most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's *funds*, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (repayment of long-term debt) or to show that it is properly using certain revenues (like Special Education and Vocational Education).

Most of the District's activities are accounted for in governmental funds.

- *Governmental funds* – The District's basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information is provided with the governmental funds statements that explains the relationship (or differences) between them.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

During the year, the District's *Total net assets* increased by \$412,587 to a total of \$2,813,430. The District's *Invested in capital assets, net of related debt net assets* decreased by approximately \$37,000 due to the completion of the Capital Project Fund, *Restricted net assets* increased by approximately \$380,000 due to a surplus in the Special Ed Fund and *Unrestricted net assets* increased by approximately \$69,000. The *Restricted net assets* consist of Special Education, Capital Projects and Debt Service funds. The *Unrestricted net assets* may be used to fund the educational services provided to students and business-type activities.

The District's improved financial position is the product of several independent factors. During the year, increased property taxes, grants and responsible spending were significant contributors to this improvement.

Summary of Net Assets (provides a perspective of the District as a whole).

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL	
	2008	2007	2008	2007	2008	2007
Current assets	\$ 3,189,697	\$ 3,587,413	\$ 255,103	\$ 206,799	\$ 3,444,800	\$ 3,794,212
Non-current assets	2,455,884	1,462,248	12,069	4,804	2,467,953	1,467,052
Total assets	5,645,581	5,049,661	267,172	211,603	5,912,753	5,261,264
Current liabilities	754,576	440,075	1,565	9,914	756,141	449,989
Non-current liabilities	2,343,182	2,410,432	-	-	2,343,182	2,410,432
Total liabilities	3,097,758	2,850,507	1,565	9,914	3,099,323	2,860,421
Net assets						
Invested in capital assets - net of debt	190,916	234,800	12,069	4,804	202,985	239,604
Restricted	1,690,805	1,310,632	-	-	1,690,805	1,310,632
Unrestricted	666,102	653,722	253,538	196,885	919,640	850,607
Total net assets	<u>\$ 2,547,823</u>	<u>\$ 2,199,154</u>	<u>\$ 265,607</u>	<u>\$ 201,689</u>	<u>\$ 2,813,430</u>	<u>\$ 2,400,843</u>

Statement of Activities (provides the results of operations of the District as a whole).

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL	
	2008	2007	2008	2007	2008	2007
Revenues						
Program revenues						
Charges for services	\$ 2,908	\$ 66,405	\$ -	\$ -	\$ 2,908	\$ 66,405
Operating grants and contributions	1,623,594	1,651,694	-	-	1,623,594	1,651,694
General revenues						
Property taxes	2,255,541	1,981,200	-	-	2,255,541	1,981,200
Grants and state aid	1,111,974	1,167,831	-	-	1,111,974	1,167,831
Investment earnings	91,292	103,938	-	-	91,292	103,938
Other	102,869	35,155	395,883	467,391	498,752	502,546
Total revenues	5,188,178	5,006,223	395,883	467,391	5,584,061	5,473,614
Functions/Program expenses						
Instruction	740,477	839,135	-	-	740,477	839,135
Support services	3,727,675	3,584,336	-	-	3,727,675	3,584,336
Community service	2,083	2,099	-	-	2,083	2,099
Food services	11,488	10,338	-	-	11,488	10,338
Intergovernmental transfers	133,848	205,747	-	-	133,848	205,747
Other	65,115	28,884	-	-	65,115	28,884
Interest on long-term debt	36,667	17,428	-	-	36,667	17,428
Depreciation - unallocated	122,156	75,513	1,651	-	123,807	75,513
Business Co-op services	-	-	245,081	238,282	245,081	238,282
Internet services	-	-	85,233	81,033	85,233	81,033
Total expenses	4,839,509	4,763,480	331,965	319,315	5,171,474	5,082,795
Increase in net assets	348,669	242,743	63,918	148,076	412,587	390,819
Net assets, beginning of year	2,199,154	1,956,411	201,689	53,613	2,400,843	2,010,024
Net assets, end of year	<u>\$ 2,547,823</u>	<u>\$ 2,199,154</u>	<u>\$ 265,607</u>	<u>\$ 201,689</u>	<u>\$ 2,813,430</u>	<u>\$ 2,400,843</u>

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

General Fund:

The District's General Fund is the chief operating fund of the District. Fund balance for the general fund increased by \$14,140. This increase came primarily from the control of expenditures during the year as well as the sale of some property. The major sources of general fund revenues are State aid and property taxes.

Special Education Fund:

Fund balance for the Special Revenue Fund increased by \$206,537 during the year. The increase was due to a decrease in staffing. The major sources of special education fund revenues are Federal grants, State aid and taxes.

2007 Capital Projects Fund:

Net assets for the 2007 Capital Projects Fund decreased by \$961,388 during the year. Interest of \$8,841 was earned and capital outlays of \$931,643 were expensed.

Proprietary Fund:

Net assets for the Proprietary Fund increased by \$63,918 during the year. The main reason for the increase was conservative budgeting.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget several times. These budget amendments were:

- Changes made in the third and fourth quarters to account for final enrollment counts, staffing assignments and changes in grant funding since the original budget was adopted.

While the District's final budget for the general fund anticipated that revenues and expenditures would reflect a decrease of \$24,140, the actual results for the year showed a surplus of \$14,140.

- Actual revenues were \$1,319,183 or \$19,777 less than expected due to the timing of Federal grant revenues.
- Actual expenditures and interfund transfers were \$1,305,154, or \$57,946 below budget, due to the timing of federal revenues/expenditures, lower than anticipated support services and final adjustments to other funds.

Special Education Fund Budgetary Highlights

Over the course of the year, the District revised the Special Education Budget several times. These budget amendments were:

- Changes made in the third and fourth quarters to account for final enrollment counts, staffing assignments and changes in grant funding since the original budget was adopted.
- While the final budget anticipated that revenues and expenditures would reflect a surplus of \$42,567, the actual results for the year show a surplus of \$206,537. This was due to an increase in local revenue and staffing adjustments not being filled during the year.
- Actual revenues were \$3,800,334, \$34,276 more than expected, due to an increase in local revenues.
- Actual expenditures were \$3,535,661, or \$123,693 below budget, due primarily to staffing adjustments not being made during the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Depreciable assets for the 2007-2008 school year totaled \$2,948,142. During the year, the District invested an additional \$1,042,392 in a new fiber project and building improvements. The District is also in the process of remodeling a building which will be completed in October 2008.

Governmental Activities	2007	Additions	Retirements	2008
Building and building improvements	\$ 1,469,243	\$ 35,624	\$ (8,460)	\$ 1,496,407
Buses and other vehicles	89,618	-	-	89,618
Furniture and equipment	304,803	1,042,392	-	1,347,195
Total depreciable assets	1,863,664	1,078,016	(8,460)	2,933,220
Less accumulated depreciation	(461,913)	(122,156)	-	(584,069)
Construction-in-process	56,066	102,302	(56,066)	102,302
Land	4,431	-	-	4,431
Net governmental capital assets	\$ 1,462,248	\$ 1,058,162	\$ (64,526)	\$ 2,455,884
Business-Type Activities	2007	Additions	Retirements	2008
Equipment	\$ 6,006	\$ 8,916	\$ -	\$ 14,922
Less accumulated depreciation	(1,202)	(1,651)	-	(2,853)
Total capital assets, net	\$ 4,804	\$ 7,265	\$ -	\$ 12,069

Long-term Debt

At year-end, the District had \$1,822,052 in general obligation bonds, \$505,000 in an installment purchase agreement and \$139,412 in accumulated leave liability. (More detailed information about the District's long-term liabilities is presented in Note F to the financial statements.)

MISD's Outstanding Long-Term Debt				
	2007	Additions	Payments	2008
General obligation debts				
(financed with property taxes)	\$ 1,832,052	\$ -	\$ (10,000)	\$ 1,822,052
Note payable	525,000	-	(20,000)	505,000
Unamortized bond issuance costs	(68,292)	-	6,208	(62,084)
Accumulated Sick & Vacation	145,464	-	(6,052)	139,412
Total	\$ 2,434,224	\$ -	\$ (29,844)	\$ 2,404,380

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time, these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

- As student enrollment continues to decline so too will State aid for special education and general education funds.
- Health insurance costs continue to remain unstable. Staff's health insurance costs increased during the year ranging from 8% - 15%.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Manistee Intermediate School District Business Office at 1710 Merkey Road, Manistee, MI, 49660.



Business and Financial Advisors
Our clients' success – our business

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Education
Manistee Intermediate School District

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of ***Manistee Intermediate School District*** (the "School District") as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Manistee Intermediate School District as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2008, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and important for assessing the results of our audit.

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The management's discussion and analysis on pages i - viii and the budgetary comparison information on pages 29 - 30, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The combining non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedules of Expenditures of Federal Awards and Expenditures of Federal Awards Provided to Subrecipients are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and are also not a required part of the basic financial statements of the School District. The combining non-major fund financial statements and the Schedules of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Dennis, Gartland & Niergarth

October 10, 2008

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Manistee Intermediate School District

STATEMENT OF NET ASSETS

June 30, 2008

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 2,609,672	\$ 255,103	\$ 2,864,775
Restricted cash and cash equivalents	183,094	-	183,094
Due from other governments	394,260	-	394,260
Prepaid expenses	<u>2,670</u>	<u>-</u>	<u>2,670</u>
Total current assets	3,189,696	255,103	3,444,799
Non-current assets			
Capital assets, net of accumulated depreciation	<u>2,455,884</u>	<u>12,069</u>	<u>2,467,953</u>
Total assets	<u><u>\$ 5,645,580</u></u>	<u><u>\$ 267,172</u></u>	<u><u>\$ 5,912,752</u></u>
LIABILITIES AND NET ASSETS			
LIABILITIES			
Current liabilities			
Accounts payable	\$ 165,514	\$ 919	\$ 166,433
Accrued payroll and related liabilities	312,550	646	313,196
Accrued expenses	8,198	-	8,198
Deferred revenue	21,251	-	21,251
Due to other governments	176,517	-	176,517
Due to agency funds	9,347	-	9,347
Current portion of long-term liabilities	<u>61,198</u>	<u>-</u>	<u>61,198</u>
Total current liabilities	754,575	1,565	756,140
Non-current portion of long-term obligations	<u>2,343,182</u>	<u>-</u>	<u>2,343,182</u>
Total liabilities	<u><u>3,097,757</u></u>	<u><u>1,565</u></u>	<u><u>3,099,322</u></u>
NET ASSETS			
Invested in capital assets, net of related debt	190,916	12,069	202,985
Restricted for:			
Special education	1,391,552	-	1,391,552
Capital projects	116,158	-	116,158
Debt service	183,094	-	183,094
Unrestricted	<u>666,103</u>	<u>253,538</u>	<u>919,641</u>
Total net assets	<u><u>2,547,823</u></u>	<u><u>265,607</u></u>	<u><u>2,813,430</u></u>
Total liabilities and net assets	<u><u>\$ 5,645,580</u></u>	<u><u>\$ 267,172</u></u>	<u><u>\$ 5,912,752</u></u>

The accompanying notes are an integral part of these financial statements.

Manistee Intermediate School District

STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

Functions/Program	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges For Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities						
Instruction	\$ 740,477	\$ -	\$ 418,137	\$ (322,340)	\$ -	\$ (322,340)
Support services	3,727,675	-	1,196,690	(2,530,985)	-	(2,530,985)
Community services	2,083	-	-	(2,083)	-	(2,083)
Food service	11,488	2,908	8,767	187	-	187
Intergovernmental transfers	133,848	-	-	(133,848)	-	(133,848)
Other	65,115	-	-	(65,115)	-	(65,115)
Interest on long-term debt	36,667	-	-	(36,667)	-	(36,667)
Depreciation - unallocated	<u>122,156</u>	<u>-</u>	<u>-</u>	<u>(122,156)</u>	<u>-</u>	<u>(122,156)</u>
Total governmental activities	<u>4,839,509</u>	<u>2,908</u>	<u>1,623,594</u>	<u>(3,213,007)</u>	<u>-</u>	<u>(3,213,007)</u>
Business-type activities						
Business Co-op Services	245,081	-	-	-	(245,081)	(245,081)
Internet Services	85,233	-	-	-	(85,233)	(85,233)
Depreciation - Internet Services	<u>1,651</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,651)</u>	<u>(1,651)</u>
Total business-type activities	<u>331,965</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(331,965)</u>	<u>(331,965)</u>
Total	<u>\$ 5,171,474</u>	<u>\$ 2,908</u>	<u>\$ 1,623,594</u>	<u>(3,213,007)</u>	<u>(331,965)</u>	<u>(3,544,972)</u>
General purpose revenues						
Property taxes						
Levied for general purposes				295,278	-	295,278
Levied for special education				1,960,263	-	1,960,263
State school aid not restricted for specific purposes				1,111,974	-	1,111,974
Investment earnings				91,292	-	91,292
Other revenues				<u>102,869</u>	<u>395,883</u>	<u>498,752</u>
Total general purpose revenues				<u>3,561,676</u>	<u>395,883</u>	<u>3,957,559</u>
Change in net assets				348,669	63,918	412,587
Net assets, beginning of year				<u>2,199,154</u>	<u>201,689</u>	<u>2,400,843</u>
Net assets, end of year				<u>\$ 2,547,823</u>	<u>\$ 265,607</u>	<u>\$ 2,813,430</u>

Manistee Intermediate School District

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2008

	Major Funds			Other	Total
	General	Special	2007 Capital	Governmental	Governmental
	Fund	Education	Projects	Funds	Funds
ASSETS					
Cash and cash equivalents	\$ 904,486	\$ 1,589,028	\$ 116,158	\$ -	\$ 2,609,672
Restricted cash and cash equivalents	-	-	-	183,094	183,094
Due from other governments	134,429	259,831	-	-	394,260
Due from other funds	6,580	14,593	-	3,196	24,369
Prepaid expenses	<u>2,528</u>	<u>142</u>	<u>-</u>	<u>-</u>	<u>2,670</u>
Total assets	<u>\$ 1,048,023</u>	<u>\$ 1,863,594</u>	<u>\$ 116,158</u>	<u>\$ 186,290</u>	<u>\$ 3,214,065</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 32,546	\$ 132,970	\$ -	\$ -	\$ 165,516
Accrued payroll and related liabilities	26,560	285,990	-	-	312,550
Deferred revenue	9,090	12,161	-	-	21,251
Due to other funds	18,965	11,940	-	2,812	33,717
Due to other governmental units	<u>147,536</u>	<u>28,981</u>	<u>-</u>	<u>-</u>	<u>176,517</u>
Total liabilities	<u>234,697</u>	<u>472,042</u>	<u>-</u>	<u>2,812</u>	<u>709,551</u>
FUND BALANCES					
Reserved for special education	-	1,391,552	-	-	1,391,552
Reserved for capital projects	-	-	116,158	-	116,158
Reserved for prepaid expenses	2,528	-	-	-	2,528
Reserved for debt service	-	-	-	183,094	183,094
Unreserved	<u>810,798</u>	<u>-</u>	<u>-</u>	<u>384</u>	<u>811,182</u>
Total fund balances	<u>813,326</u>	<u>1,391,552</u>	<u>116,158</u>	<u>183,478</u>	2,504,514
Total liabilities and fund balances	<u>\$ 1,048,023</u>	<u>\$ 1,863,594</u>	<u>\$ 116,158</u>	<u>\$ 186,290</u>	

Reconciliation of Governmental Fund Balances to District-Wide Governmental Activities Net Assets

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$3,039,953 and the accumulated depreciation is \$584,069. 2,455,884

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bonds payable	\$ 2,327,052	
Accrued interest on bonds	8,195	
Unamortized bond issuance costs	(62,084)	
Accumulated leave liability	<u>139,412</u>	<u>(2,412,575)</u>

Total net assets - governmental activities \$ 2,547,823

The accompanying notes are an integral part of these financial statements.

Manistee Intermediate School District

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2008

	Major Funds			Other	Total
	General	Special	2007 Capital	Governmental	Governmental
	Fund	Education	Projects	Funds	Funds
Revenues					
Local revenues	\$ 351,847	\$ 1,962,206	\$ -	\$ 43,325	\$ 2,357,378
Interest	46,543	31,285	8,841	4,623	91,292
Intermediate sources	15,875	-	-	-	15,875
State revenues	532,437	757,705	-	97	1,290,239
Federal revenues	317,347	952,509	-	8,767	1,278,623
Other	55,134	96,629	-	3,008	154,771
Total revenues	1,319,183	3,800,334	8,841	59,820	5,188,178
Expenditures					
Instruction	127,837	612,640	-	-	740,477
Supporting services	910,383	2,799,009	-	-	3,709,392
Community services	1,601	482	-	-	2,083
Food service	-	-	-	11,488	11,488
Intergovernmental transfers	127,468	6,380	-	-	133,848
Other	25,970	560	38,586	-	65,116
Debt service					
Principal	20,000	-	-	10,000	30,000
Interest	-	-	-	33,482	33,482
Capital outlay	91,895	116,590	931,643	-	1,140,128
Total expenditures	1,305,154	3,535,661	970,229	54,970	5,866,014
REVENUES OVER (UNDER) EXPENDITURES	14,029	264,673	(961,388)	4,850	(677,836)
Other financing sources (uses)					
Operating transfers in	268	-	-	58,293	58,561
Operating transfers out	(157)	(58,136)	-	(268)	(58,561)
Total other financing sources (uses)	111	(58,136)	-	58,025	-
REVENUE OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	14,140	206,537	(961,388)	62,875	(677,836)
Fund balance, beginning of year	799,186	1,185,015	1,077,546	120,603	3,182,350
Fund balance, end of year	<u>\$ 813,326</u>	<u>\$ 1,391,552</u>	<u>\$ 116,158</u>	<u>\$ 183,478</u>	<u>\$ 2,504,514</u>

The accompanying notes are an integral part of these financial statements.

Manistee Intermediate School District

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE DISTRICT-WIDE STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

Total Net Change in Fund Balances - Governmental Funds \$ (677,836)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, costs that meet the capitalization policy are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlays exceeds depreciation in the period.

Capital outlays	\$ 1,124,252	
Capital retirements	(8,460)	
Depreciation expense	<u>(122,156)</u>	993,636

In the statement of activities, certain operating expenses - accumulated leave liability (sick leave and compensated time) - are measured by the amounts earned during the year. In the governmental funds; however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, sick leave and compensated time earned was less than the amounts used by \$6,052.

6,052

Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.

30,000

Amortization of bond issuance costs

(6,208)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities; however, interest expense is recognized as the interest accrues, regardless of when it is due. The decrease in interest reported in the statement of activities is the net result of the decrease in accrued interest on bonds payable.

3,025

Changes in Net Assets of Governmental Activities

\$ 348,669

Manistee Intermediate School District

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

June 30, 2008

	<u>Non-Major Enterprise Funds</u>		
	Business Co-op Fund	MISD Net	Total Proprietary Funds
ASSETS			
Current assets			
Cash	\$ 70,254	\$ 184,849	\$ 255,103
Non-current assets			
Equipment, net	<u>-</u>	<u>12,069</u>	<u>12,069</u>
Total assets	<u>\$ 70,254</u>	<u>\$ 196,918</u>	<u>\$ 267,172</u>
LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts payable	\$ 117	\$ 802	\$ 919
Accrued payroll and related liabilities	<u>646</u>	<u>-</u>	<u>646</u>
Total liabilities	<u>763</u>	<u>802</u>	<u>1,565</u>
NET ASSETS			
Invested in capital assets	-	12,069	12,069
Unrestricted	<u>69,491</u>	<u>184,047</u>	<u>253,538</u>
Total net assets	<u>69,491</u>	<u>196,116</u>	<u>265,607</u>
Total liabilities and net assets	<u>\$ 70,254</u>	<u>\$ 196,918</u>	<u>\$ 267,172</u>

Manistee Intermediate School District

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS

Year Ended June 30, 2008

	<u>Non-Major Enterprise Funds</u>		
	Business Co-op Fund	MISD Net	Total Proprietary Funds
Operating revenues	\$ 269,975	\$ 125,908	\$ 395,883
Operating expenses	<u>245,081</u>	<u>86,884</u>	<u>331,965</u>
CHANGE IN NET ASSETS	24,894	39,024	63,918
Net assets, beginning of year	<u>44,597</u>	<u>157,092</u>	<u>201,689</u>
Net assets, end of year	<u>\$ 69,491</u>	<u>\$ 196,116</u>	<u>\$ 265,607</u>

Manistee Intermediate School District

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year Ended June 30, 2008

	<u>Non-Major Enterprise Funds</u>		Total
	Business Co-op Fund	MISD Net	Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Change in net assets	\$ 24,894	\$ 39,024	\$ 63,918
Adjustments to reconcile change in net assets in net cash from operating activities			
Depreciation expense	-	1,651	1,651
Decrease in due from other governments	-	5,200	5,200
Decrease in due from governmental funds	962	-	962
(Decrease) increase in accounts payable	27	802	829
Increase in accrued payroll and related liabilities	646	-	646
Decrease in due to other funds	<u>(3,399)</u>	<u>(7,388)</u>	<u>(10,787)</u>
Net cash flows provided by operating activities	23,130	39,289	62,419
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of equipment	<u>-</u>	<u>(8,915)</u>	<u>(8,915)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	23,130	30,374	53,504
CASH AND CASH EQUIVALENTS, beginning of year	<u>47,124</u>	<u>154,475</u>	<u>201,599</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 70,254</u></u>	<u><u>\$ 184,849</u></u>	<u><u>\$ 255,103</u></u>

The accompanying notes are an integral part of these financial statements.

Manistee Intermediate School District

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2008

	Agency Funds			
	SPARC Food Co-op	RICC Fund	Student Services	Total
ASSETS				
Cash and cash equivalents	\$ 82,905	\$ -	\$ -	\$ 82,905
Accounts receivable	15,525	-	-	15,525
Due from other funds	<u>-</u>	<u>4,216</u>	<u>5,132</u>	<u>9,348</u>
Total assets	<u>\$ 98,430</u>	<u>\$ 4,216</u>	<u>\$ 5,132</u>	<u>\$ 107,778</u>
LIABILITIES				
Due to other governmental units	\$ 94,747	\$ 1,284	\$ -	\$ 96,031
Due to student groups	-	-	5,132	5,132
Accounts payable	<u>3,683</u>	<u>2,932</u>	<u>-</u>	<u>6,615</u>
Total liabilities	<u>\$ 98,430</u>	<u>\$ 4,216</u>	<u>\$ 5,132</u>	<u>\$ 107,778</u>

Manistee Intermediate School District

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

The Manistee Intermediate School District (the "School District") primarily serves approximately 3,750 students within Manistee and surrounding communities. The School District consists of two facilities, one education center and one administration center. There are four public school districts, one public academy, two non-public schools and one community college in the School District's service area. As of June 30, 2008, the School District employed 26 professional staff and 21 non-professional staff and had 54 students enrolled within its School District.

The accounting policies of the School District conform to generally accepted accounting principles as applicable to governments. The School District is considered to be a local government unit.

The accounting and reporting framework and the more significant accounting principles and practices of the School District are discussed in subsequent sections of this Note. The remainder of the notes are organized to provide explanations, including required disclosures, of the School District's financial activities for the fiscal year ended June 30, 2008.

The Financial Reporting Entity

Manistee Intermediate School District's Board of Education (the "Board") is the basic level of government which has oversight responsibility and control over all activities related to the public school education. The Board receives funding from local, State and Federal governmental sources and must comply with the concomitant requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity," as defined in Governmental Accounting Standards Board ("GASB") Statement No. 14, since Board members are elected by the public and have decision-making authority to levy taxes, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. In addition, under the criteria of the GASB pronouncement, student, parent and teacher organizations are not included, except to the extent that the School District holds assets in the capacity of an agent.

District-Wide and Fund Financial Statements

District-Wide Financial Statements

The statement of net assets and statement of activities display information on all non-fiduciary activities of the School District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

NOTES TO FINANCIAL STATEMENTS - Continued

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the School District's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds even though the latter are excluded from the district-wide financial statements. The balance sheet and statement of revenues, expenditures and changes in fund balances for the School District's governmental funds and the statement of net assets, statement of revenues, expenses and changes in net assets and statement of cash flows for the School District's proprietary funds (i.e., fund financial statements) are presented after the district-wide statements. These statements display information about each major fund and non-major funds in the aggregate. Major funds are generally those that represent 10% or more of governmental or proprietary fund assets, liabilities, revenues or expenditures and 5% of combined assets, liabilities, revenues or expenditures.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the School District are prepared in accordance with generally accepted accounting principles ("GAAP"). The School District's reporting entity applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements and applicable Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The School District's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The district-wide and proprietary fund statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The School District considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

NOTES TO FINANCIAL STATEMENTS - Continued

Major revenue sources susceptible to accrual include property taxes, intergovernmental revenues and investment income. In general, other revenues are recognized when cash is received.

The proprietary funds use the accrual basis of accounting and are accounted for on a cost-of-services or "capital maintenance" measurement focus. Under the capital maintenance measurement focus, all assets and liabilities associated with the fund's activities are included on its balance sheet. Under the accrual basis, revenues are recognized when earned and expenses are recognized when they are incurred. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. Operating expenses include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The fiduciary funds use the accrual basis of accounting and the capital maintenance measurement focus. All assets and liabilities associated with the fund's activities are included on its balance sheet. Revenues are recognized when earned and expenses are recognized when they are incurred.

Fund Types and Major Funds

Activities in Major Governmental Funds

The General Fund is the general operating fund of the School District. It is used to account for all financial resources except those required to be accounted for in another fund.

The Special Education Fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for special education programs.

The 2007 Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Activities in Non-Major Governmental Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The Special Revenue Fund maintained by the School District is the Food Service Fund. Any operating deficit generated by this activity is the responsibility of the General Fund.

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, bond principal, interest, and related costs.

Activities in Non-Major Proprietary Funds

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods and services be accounted primarily through user charges. The enterprise funds maintained by the School District are the MISD Net and Business Co-op Funds.

NOTES TO FINANCIAL STATEMENTS - Continued

Fiduciary Funds

Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the government-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Cash and Equivalents

The School District considers all highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

Investments

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value.

Capital Assets

Capital assets are recorded at cost or, if donated, the fair value at the time of donation. Capital assets are depreciated over their estimated useful lives ranging from 5 to 50 years. The School District generally capitalizes assets with costs of \$5,000 or more as purchase and construction outlays occur. No depreciation is recorded on land or construction-in-process. Expenditures for major renewals and betterments that extend the useful lives of the capital assets are capitalized. Expenditures for maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings and improvements	20-50 years
Furniture and equipment	5-10 years
Buses and vehicles	5-10 years

Long-term Debt, Deferred Debt Expense and Bond Discounts/Premiums

In the district-wide financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

NOTES TO FINANCIAL STATEMENTS - Continued

Fund Equity

The governmental fund financial statements report reserved fund balance for amounts not available for appropriation or legally restricted for specified purposes.

Program Revenues

Program revenues derive directly from the program itself or from outside parties for the restricted use in a particular program. On the statement of activities, program revenues reduce the net cost of the various functions to reflect the amount which is financed from the School District's general revenues.

The School District's most significant program revenues are special education revenues, which are reported as operating grants and contributions.

Spending Policy

When both restricted and unrestricted resources are available for use, it is the School District's policy to use restricted resources first, then unrestricted resources as needed.

Encumbrance Accounting

The School District formally records encumbrances in the accounting records during the year as a normal practice. In accordance with generally accepted accounting principles, outstanding encumbrances at year-end for which goods or services are received are reclassified as expenditures and accounts payable. All other encumbrances in the annual budgeted funds are reversed at year-end and are either canceled or are included as reappropriations of fund balance for the subsequent year.

Allocation of Expenses

The School District reports each function's direct expenses, those that are specifically associated with a service, program or department and, thus, are clearly identifiable to a particular function.

The School District has elected not to allocate indirect expenses.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

NOTE B - BUDGETARY POLICY AND PRACTICE*Excess of Expenditures over Appropriations in Budgeted Funds*

Michigan Public Act 621 of 1978 provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2008, the School District was out of compliance with the Act as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Business services	\$ 99,895	\$ 101,193	\$ 1,298
Operations and maintenance	151,074	157,966	6,892
Special Education Fund			
Intergovernmental transfers	-	6,380	6,380

The final Board adopted Special Education Fund budget assigned \$58,136 to Debt Service. This amount was actually transferred to the QZAB Bond Retirement Fund for the future repayment of bond obligations.

NOTE C - CASH AND INVESTMENTS

At June 30, 2008, the School District's cash and cash equivalents include the following:

	<u>Cash and Equivalents</u>
Cash on hand	\$ 700
Bank deposits	908,011
Investment pools	<u>2,222,063</u>
	<u>\$ 3,130,774</u>

Custodial Credit Risk - Deposits

All of the School District's bank deposits are with financial institutions which provide FDIC insurance coverage. However, in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2008, \$847,637 of the School District's bank deposits were uninsured.

NOTES TO FINANCIAL STATEMENTS - Continued

Investments

The School District's investment policy permits investments in the following vehicles:

1. Bonds and other obligations of the United States; the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
2. Certificate of deposits issued by financial institutions organized and authorized to operate in Michigan.
3. Certain commercial paper.
4. Securities issued or guaranteed by agencies or instruments of the United States government.
5. United States government of Federal agency obligation repurchase agreements.
6. Banker's acceptance issued by a bank that is a member of the FDIC.
7. Certain mutual funds.
8. Investment pools, as authorized by the surplus funds investment pool act, Act No. 367 of the Public Acts of 1982.

Investments at June 30, 2008 consisted of the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Current</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
MILAF	<u>\$ 2,222,063</u>	<u>\$ 2,222,063</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Interest Rate Risk

The School District attempts to minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by: structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in short-term securities, or MILAF and limiting the average maturity.

Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized rating organizations. The School District's investment in the MILAF investment pool was rated AAAm by Standard and Poor's.

NOTE D - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND DEFERRED REVENUE

Property Taxes Receivable, Deferred Revenue and Property Tax Calendar

Property taxes are levied, billed and attached as enforceable liens in July of the School District's fiscal year. Townships within the School District collect and remit taxes until February 15, at which time the uncollected real property taxes are turned over to the counties as delinquent. Delinquent real property taxes are funded by the county and remitted to the School District. Delinquent personal property tax remains a receivable until collected from the taxpayer by the townships and remitted to the School District. In the governmental fund financial statements, if delinquent taxes are not paid within 60 days of year-end, they are recorded as deferred revenue. In the district-wide financial statements, property taxes receivable and related revenue include all amounts due the School District regardless of when cash is received. Over time, substantially all property taxes are collected.

During the fiscal year, \$0.2977 and \$1.7896 per \$1,000 of equalized homestead and non-homestead property value in the School District of \$984 million were levied for general operating and special education purposes, respectively.

Intergovernmental Receivables and Deferred Revenue

Intergovernmental receivables are primarily comprised of amounts due from the State and Federal governments. Revenue is recorded as earned when eligibility requirements are met. Grant revenues deferred in the governmental fund financial statements include unearned revenue and revenue received more than 60 days following year-end (unavailable to pay liabilities of the current period). Deferred revenue received after 60 days is fully recognized as revenue in the district-wide statements if grantor eligibility requirements are met.

Amounts due from other governments at June 30, 2008 are as follows:

	<u>Governmental Activities</u>
Due from the State of Michigan State Aid	\$ 247,204
Due from Federal grants	145,274
Other	<u>1,782</u>
	<u><u>\$ 394,260</u></u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE E - INVESTMENTS IN CAPITAL ASSETS

Investments in capital assets consist of the following:

Governmental Activities

	<u>July 1, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2008</u>
Buildings and improvements	\$ 1,469,243	\$ 35,624	\$ (8,460)	\$ 1,496,407
Furniture and equipment	304,803	1,042,392	-	1,347,195
Buses and vehicles	<u>89,618</u>	<u>-</u>	<u>-</u>	<u>89,618</u>
Total depreciable assets	1,863,664	1,078,016	(8,460)	2,933,220
Less accumulated depreciation	(461,913)	(122,156)	-	(584,069)
Construction-in-process	56,066	102,302	(56,066)	102,302
Land	<u>4,431</u>	<u>-</u>	<u>-</u>	<u>4,431</u>
Total capital assets, net	<u>\$ 1,462,248</u>	<u>\$ 1,058,162</u>	<u>\$ (64,526)</u>	<u>\$ 2,455,884</u>

Business-Type Activities

	<u>July 1, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2008</u>
Equipment	\$ 6,006	\$ 8,916	\$ -	\$ 14,922
Less accumulated depreciation	<u>(1,202)</u>	<u>(1,651)</u>	<u>-</u>	<u>(2,853)</u>
Total capital assets, net	<u>\$ 4,804</u>	<u>\$ 7,265</u>	<u>\$ -</u>	<u>\$ 12,069</u>

Depreciation expense was charged to the function in the statement of activities, as follows:

Governmental activities	
Unallocated	\$ 122,156
Business-type activities	
Internet services	<u>1,651</u>
Total depreciation expense	<u>\$ 123,807</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE F - LONG-TERM LIABILITIES

Changes in long-term debt during the year ended June 30, 2008 were as follows:

	<u>Beginning Balance</u>	<u>New Debt</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Current Portion</u>
General obligation bonds	\$1,832,052	\$ -	\$ (10,000)	\$1,822,052	\$ 42,406
Installment purchase agreement	525,000	-	(20,000)	505,000	25,000
Unamortized bond issuance costs	(68,292)	-	6,208	(62,084)	(6,208)
Accumulated leave liability*	<u>145,464</u>	<u>-</u>	<u>(6,052)</u>	<u>139,412</u>	<u>-</u>
Long-term debt	<u>\$2,434,224</u>	<u>\$ -</u>	<u>\$ (29,844)</u>	<u>\$2,404,380</u>	<u>\$ 61,198</u>

*Accumulated leave liability payments represents the net effect of additional vacation days used in excess of being earned during the year.

Payments on general obligation bonds are made by the Debt Service Funds. The accumulated leave liability will be liquidated primarily by the Special Education Fund.

At June 30, 2008, the School District's long-term debt consisted of the following:

1998 School Improvement Bond (Durant); due in annual installments of \$22,406 to \$137,978 through May 15, 2013; average interest rate of 4.76%. This debt will be repaid using revenues provided by the State of Michigan specifically for this purpose. If the Michigan Legislature fails to appropriate funds, the School District is not liable for repayment of these bonds.	\$ 237,717
2004 School Improvement Bonds (QZAB); due in August 2018; no annual installments; interest rate at zero.	979,335
2007 Honor State Bank Installment Purchase Agreement; due in annual installments of \$25,000 to \$55,000 through May 1, 2022 with semi-annual interest thereon at a rate of 4.59%.	505,000
2007 West Shore Bank School Technology Bond; due in annual installments of \$20,000 to \$90,000 through May 1, 2025 with semi-annual interest thereon at a rate of 4.59%.	<u>605,000</u>
Total general obligation bonds payable	2,327,052
Unamortized bond issue costs	(62,084)
Accumulated leave liability	<u>139,412</u>
Total long-term debt	<u>\$ 2,404,380</u>

NOTES TO FINANCIAL STATEMENTS - Continued

Total annual requirements to amortize bonds outstanding as of June 30, 2008 are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 67,406	\$ 55,048
2010	182,978	99,177
2011	74,589	48,908
2012	75,759	45,547
2013	76,985	42,131
2014-2018	300,000	167,812
2019-2023	1,369,335	95,134
2024-2025	<u>180,000</u>	<u>12,394</u>
	<u><u>\$ 2,327,052</u></u>	<u><u>\$ 566,151</u></u>

Interest expense for the year ended June 30, 2008 was \$59,452.

Accumulated Leave Liability

Employees of the School District accumulate days of compensated sick leave and compensated time benefits, as specified by the bargaining units' contract. This benefit vests after 5 years of employment. Upon either resignation or retirement, the employees are compensated at daily rates specified in the bargaining units' contracts.

2004 School Improvement Bonds

The 2004 School Improvement Bonds are "qualified zone academy bonds" ("QZAB") under Section 1397E(d)(6) of the Internal Revenue Code, allowing holders of the bonds certain income tax credits. The QZAB bonds are due in August 2018 but require annual deposits of \$58,136 into a Sinking Fund beginning August 2005. The escrow account balance was \$183,094 at June 30, 2008. The Sinking Fund deposits plus the interest earned thereon, which is fixed at 2.71%, will be sufficient to pay off the bonds upon maturity. Any spread from the Sinking Fund account will be paid to the purchaser of the bonds.

NOTE G - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; unemployment benefits; and natural disasters, as well as medical benefits provided to employees. The School District manages its risk exposures and provides certain employee benefits through a combination of self-insurance, commercial insurance, and risk management pools.

The School District pays unemployment claims on a reimbursement basis through the Bureau of Workers' and Unemployment Compensation ("BWUC"). As BWUC pays eligible recipients benefits, this amount is billed to Manistee Intermediate School District. At June 30, 2008, there were no significant unbilled claims.

NOTES TO FINANCIAL STATEMENTS - Continued

The School District participates in SET-SEG's risk management pools for worker's compensation claims, liability insurance and errors and omissions coverages. SET-SEG was established pursuant to laws of the State of Michigan which authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of SET-SEG is to provide cooperative and comprehensive risk financing and risk control services. SET-SEG provides risk management, underwriting, reinsurance and claim review and processing services for all member governments pursuant to its charter.

The School District makes annual contributions to SET-SEG based on actuarial studies using historical data and insurance industry statistics. These contributions are primarily paid from the Special Education Fund. Such contributions as received by SET-SEG are allocated between its General and Member Retention Funds. Economic resources in SET-SEG's General Fund are expended for reinsurance coverage, claim payments and certain general and administrative costs, whereas resources in the Member Retention Fund are used for loss payments and defense costs up to the member's self-insurance retention limits along with certain other member-specific costs. Any refunds from SET-SEG are deposited in the School District's General Fund.

NOTE H - BALANCES AND TRANSFERS/PAYMENTS WITHIN THE REPORTING ENTITY

Receivables and Payables

Outstanding balances between funds reported as "due to/from other funds" include outstanding charges by one fund to another for services or goods, subsidy commitments outstanding at year end, and other miscellaneous receivables/payables between funds.

At June 30, 2008, the School District's interfund balances consisted of the following:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Governmental Funds		
General	\$ 6,580	\$ 18,965
Special Education	14,593	11,940
Other Governmental Funds		
Food Service	3,039	2,655
2007 Debt Service	157	157
Fiduciary Funds		
RICC	4,216	-
Student Services	<u>5,132</u>	<u>-</u>
	<u>\$ 33,717</u>	<u>\$ 33,717</u>

Transfers and Payments

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions or maintaining debt service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs.

NOTES TO FINANCIAL STATEMENTS - Continued

The government-wide statement of activities eliminates transfers as reported within the segregated governmental and business-type activities columns. Only transfers between the two columns appear in this statement.

The following schedule reports transfers and payments within the reporting entity:

<u>Fund</u>	<u>Transfer in</u>	<u>Fund</u>	<u>Transfer out</u>
General Fund	\$ 268	General Fund	\$ 157
Special Education Fund	-	Special Education Fund	58,136
Other Governmental Funds		Other Governmental Funds	
QZAB Bond Retirement		Debt Service Fund	<u>268</u>
Fund	58,136		
2007 Debt Service Fund	<u>157</u>		
	<u>\$ 58,561</u>		<u>\$ 58,561</u>

NOTE I - PENSION PLAN

The School District contributes to the Michigan Public School Employees' Retirement Systems ("MPERS"), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan, Department of Management & Budget, Office of Retirement Services ("ORS"). MPERS provides retirement, disability, death and post-employment health benefits to plan members and beneficiaries. Member Investment Plan ("MIP") participants receive enhanced benefits compared to Basic Plan participants. Benefits are safeguarded by Article IX, Section 24 of the Michigan Constitution. Public Act 300 of 1980, as amended, assigns authority to establish and amend benefit provisions to the State Legislature. MPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to MPERS, P.O. Box 30171, Lansing, MI 48909-7671, by calling (517) 322-5103 or on the State of Michigan's website at www.Michigan.gov.

Funding Policy

Plan members who participate in MIP are required to contribute 3.0% to 4.3% of their annual covered salary; plan members who participate in the Basic Plan may not contribute to the Plan; and Manistee Intermediate School District is required to contribute at an actuarially determined rate using the entry age actuarial cost method. The rate was 17.74% for the period July 1, 2007 to September 30, 2007 and 16.72% for the period October 1, 2007 to June 30, 2008 of annual covered payroll. The contribution requirements of plan members and Manistee Intermediate School District are established and may be amended by the State Legislature. The School District's contributions to MPERS for the years ended June 30, 2008, 2007 and 2006 were \$354,000, \$354,000 and \$353,000, respectively, which is equal to the required contribution for the year.

NOTES TO FINANCIAL STATEMENTS - Continued

Post employment benefits

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental and vision coverages. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for post-employment health care are included as part of the School District's total contribution to the MPSERS plan discussed above.

NOTE J - COMMITMENTS AND CONTINGENCIES

Capital Projects

As of June 30, 2008, the School District has committed to a total project cost of \$1,140,000, of which \$1,048,916 has been expended to date, leaving a remaining construction commitment of \$91,084. The 2007 Capital Projects Fund balance was \$116,158 at June 30, 2008. The project was substantially completed in September 2007.

Federal and State Grants

In the normal course of operations, the School District receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authorities, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

Collectively Bargained Employment Agreements

The teachers of the School District are organized under the Manistee Intermediate Education Association. The Board of Education and the Manistee Intermediate Education Association's contract expires June 30, 2008.

NOTE K - CHARTER SCHOOL CONTRACT

On July 1, 2000, the School District entered into a contract with CASMAN Academy to charter a public school academy. The Academy was formed as a charter school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994.

REQUIRED SUPPLEMENTARY INFORMATION

Manistee Intermediate School District

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2008

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final Budget	Final Budget To Actual
Revenues					
Local revenues	\$ 307,722	\$ 397,612	\$ 398,390	\$ 89,890	\$ 778
Intermediate sources	13,441	15,875	15,875	2,434	-
State revenues	619,979	567,319	532,437	(52,660)	(34,882)
Federal revenues	229,076	303,020	317,347	73,944	14,327
Other financing sources	<u>33,663</u>	<u>55,134</u>	<u>55,134</u>	<u>21,471</u>	<u>-</u>
Total revenues	<u>1,203,881</u>	<u>1,338,960</u>	<u>1,319,183</u>	<u>135,079</u>	<u>(19,777)</u>
Expenditures					
Instruction	<u>80,248</u>	<u>127,837</u>	<u>127,837</u>	<u>(47,589)</u>	<u>-</u>
Support services					
Pupil support	45,589	57,924	50,631	(12,335)	7,293
Instructional staff support	196,086	186,666	174,479	9,420	12,187
General administration	286,707	273,852	270,410	12,855	3,442
Business services	113,334	99,895	101,192	13,439	(1,297)
Operations and maintenance	111,710	151,074	157,966	(39,364)	(6,892)
Other central support	<u>328,157</u>	<u>279,606</u>	<u>247,600</u>	<u>48,551</u>	<u>32,006</u>
Total support services	<u>1,081,583</u>	<u>1,049,017</u>	<u>1,002,278</u>	<u>32,566</u>	<u>46,739</u>
Community service	<u>-</u>	<u>1,906</u>	<u>1,601</u>	<u>(1,906)</u>	<u>305</u>
Other					
Intergovernmental transfers	152,342	127,468	127,468	24,874	-
Other	<u>-</u>	<u>56,872</u>	<u>45,970</u>	<u>(56,872)</u>	<u>10,902</u>
Total other	<u>152,342</u>	<u>184,340</u>	<u>173,438</u>	<u>(31,998)</u>	<u>10,902</u>
Total expenditures	<u>1,314,173</u>	<u>1,363,100</u>	<u>1,305,154</u>	<u>(48,927)</u>	<u>57,946</u>
REVENUES OVER (UNDER) EXPENDITURES	(110,292)	(24,140)	14,029	86,152	38,169
Other financing uses					
Operating transfers in	-	-	268	-	268
Operating transfers out	<u>-</u>	<u>-</u>	<u>(157)</u>	<u>-</u>	<u>(157)</u>
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(110,292)	(24,140)	14,140	86,152	38,280
Fund balance, beginning of year	<u>799,186</u>	<u>799,186</u>	<u>799,186</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ 688,894</u>	<u>\$ 775,046</u>	<u>\$ 813,326</u>	<u>\$ 86,152</u>	<u>\$ 38,280</u>

Manistee Intermediate School District

BUDGETARY COMPARISON SCHEDULE FOR THE SPECIAL EDUCATION FUND

Year Ended June 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Variances - Positive (Negative)</u>	
	<u>Original</u>	<u>Final</u>		<u>Original to Final Budget</u>	<u>Final Budget To Actual</u>
Revenues					
Local revenues	\$ 1,951,295	\$ 2,016,056	\$ 1,993,491	\$ 64,761	\$ (22,565)
State revenues	794,896	799,493	757,705	4,597	(41,788)
Federal revenues	948,509	950,509	952,509	2,000	2,000
Other	<u>15,508</u>	<u>-</u>	<u>96,629</u>	<u>(15,508)</u>	<u>96,629</u>
Total revenues	<u>3,710,208</u>	<u>3,766,058</u>	<u>3,800,334</u>	<u>55,850</u>	<u>34,276</u>
Expenditures					
Instruction	657,800	701,343	612,640	(43,543)	88,703
Supporting services	2,916,521	2,957,511	2,916,159	(40,990)	41,352
Community services	1,600	500	482	1,100	18
Intergovernmental transfers	<u>-</u>	<u>-</u>	<u>6,380</u>	<u>-</u>	<u>(6,380)</u>
Total expenditures	<u>3,575,921</u>	<u>3,659,354</u>	<u>3,535,661</u>	<u>(83,433)</u>	<u>123,693</u>
REVENUES OVER (UNDER) EXPENDITURES	134,287	106,704	264,673	(27,583)	157,969
Other financing uses					
Operating transfers out	<u>(98,237)</u>	<u>(64,137)</u>	<u>(58,136)</u>	<u>34,100</u>	<u>6,001</u>
REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	36,050	42,567	206,537	6,517	163,970
Fund balance, beginning of year	<u>1,185,015</u>	<u>1,185,015</u>	<u>1,185,015</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,221,065</u>	<u>\$ 1,227,582</u>	<u>\$ 1,391,552</u>	<u>\$ 6,517</u>	<u>\$ 163,970</u>

**COMBINING FINANCIAL STATEMENTS OF
NON-MAJOR GOVERNMENTAL FUNDS**

Manistee Intermediate School District

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2008

	Special Revenue Fund	Debt Service Funds			Total Non-Major Governmental
	Food Service Fund	2007 Debt Service Fund	Debt Service Fund	QZAB Bond Retirement Fund	
ASSETS					
Restricted cash	\$ -	\$ -	\$ -	\$ 183,094	\$ 183,094
Due from other funds	<u>3,039</u>	<u>157</u>	<u>-</u>	<u>-</u>	<u>3,196</u>
Total assets	<u><u>\$ 3,039</u></u>	<u><u>\$ 157</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 183,094</u></u>	<u><u>\$ 186,290</u></u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Due to other funds	<u>\$ 2,655</u>	<u>\$ 157</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,812</u>
FUND BALANCES					
Reserved for debt service	-	-	-	183,094	183,094
Unreserved	<u>384</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>384</u>
Total fund balances	<u>384</u>	<u>-</u>	<u>-</u>	<u>183,094</u>	<u>183,478</u>
Total liabilities and fund balances	<u><u>\$ 3,039</u></u>	<u><u>\$ 157</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 183,094</u></u>	<u><u>\$ 186,290</u></u>

The accompanying notes are an integral part of these financial statements.

Manistee Intermediate School District

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS

Year Ended June 30, 2008

	Special Revenue Fund	Debt Service Funds			Total Non-Major Governmental
	Food Service Fund	2007 Debt Service Fund	Debt Service Fund	QZAB Bond Retirement Fund	
Revenues					
Interest	\$ -	\$ -	\$ -	\$ 4,623	\$ 4,623
Local revenues	-	43,325	-	-	43,325
State revenues	97	-	-	-	97
Federal revenues	8,767	-	-	-	8,767
Other	<u>3,008</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,008</u>
Total revenues	<u>11,872</u>	<u>43,325</u>	<u>-</u>	<u>4,623</u>	<u>59,820</u>
Expenditures					
Food service	11,488	-	-	-	11,488
Debt Service					
Principal	-	10,000	-	-	10,000
Interest	<u>-</u>	<u>33,482</u>	<u>-</u>	<u>-</u>	<u>33,482</u>
Total expenditures	<u>11,488</u>	<u>43,482</u>	<u>-</u>	<u>-</u>	<u>54,970</u>
REVENUES OVER (UNDER) EXPENDITURES	384	(157)	-	4,623	4,850
Other financing sources					
Operating transfers in	-	157	-	58,136	58,293
Operating transfers out	<u>-</u>	<u>-</u>	<u>(268)</u>	<u>-</u>	<u>(268)</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>157</u>	<u>(268)</u>	<u>58,136</u>	<u>58,025</u>
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	384	-	(268)	62,759	62,875
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>268</u>	<u>120,335</u>	<u>120,603</u>
Fund balance, end of year	<u>\$ 384</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 183,094</u>	<u>\$ 183,478</u>

The accompanying notes are an integral part of these financial statements.

FEDERAL PROGRAMS

Manistee Intermediate School District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2008

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Original Approved Award/Grant Amount	Accrued Revenue July 1, 2007	Prior Year Expenditures	Current Year Receipts	Current Year Expenditures	Accrued Revenue June 30, 2008
Special Education I.D.E.A Cluster							
United States Department of Education							
Passed through Michigan Department of Education							
Special Education - I.D.E.A.	84.027						
070480-EOSD		\$ 45,000	\$ 6,962	\$ 45,000	\$ 6,962	\$ -	\$ -
070490-TS		60,000	14,275	60,000	14,275	-	-
070450-0607		749,724	176,329	749,724	176,329	-	-
070440-0607		4,000	4,000	4,000	4,000	-	-
080480-EOSD		45,000	-	-	45,000	45,000	-
080490-TS		50,000	-	-	45,500	50,000	4,500
080450-0708		748,277	-	-	609,803	748,277	138,474
080440-0708		<u>4,000</u>	<u>-</u>	<u>-</u>	<u>4,000</u>	<u>4,000</u>	<u>-</u>
Total I.D.E.A.		<u>1,706,001</u>	<u>201,566</u>	<u>858,724</u>	<u>905,869</u>	<u>847,277</u>	<u>142,974</u>
Preschool Incentive Grant	84.173						
070460-0607		32,666	11,600	32,666	11,600	-	-
080460-0708		<u>32,544</u>	<u>-</u>	<u>-</u>	<u>32,544</u>	<u>32,544</u>	<u>-</u>
Total Preschool Incentive Grant		<u>65,210</u>	<u>11,600</u>	<u>32,666</u>	<u>44,144</u>	<u>32,544</u>	<u>-</u>
Total Special Education I.D.E.A. Cluster		<u>1,771,211</u>	<u>213,166</u>	<u>891,390</u>	<u>950,013</u>	<u>879,821</u>	<u>142,974</u>
Infant and Toddler Early Childhood Intervention Program	84.181						
071340-190		69,151	14,719	69,151	14,719	-	-
071340-190		<u>72,688</u>	<u>-</u>	<u>-</u>	<u>72,688</u>	<u>72,688</u>	<u>-</u>
Total Infant and Toddler		<u>141,839</u>	<u>14,719</u>	<u>69,151</u>	<u>87,407</u>	<u>72,688</u>	<u>-</u>
Safe and Drug-Free Schools and Communities	84.186						
072860-0607		<u>18,766</u>	<u>6,797</u>	<u>18,766</u>	<u>6,797</u>	<u>-</u>	<u>-</u>

Manistee Intermediate School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - Continued

Year Ended June 30, 2008

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Original Approved Award/Grant Amount	Accrued Revenue July 1, 2007	Prior Year Expenditures	Current Year Receipts	Current Year Expenditures	Accrued Revenue June 30, 2008
Title VA - Innovation Educational Program Strategies	84.298						
070250-0607		\$ 172	\$ 10	\$ 172	\$ 10	\$ -	\$ -
080250-0708		<u>167</u>	<u>-</u>	<u>-</u>	<u>167</u>	<u>167</u>	<u>-</u>
Total Title VA - Innovation Educational Program Strategies		<u>339</u>	<u>10</u>	<u>172</u>	<u>177</u>	<u>167</u>	<u>-</u>
Title IIA - Improving Teacher Quality	84.367						
070520-0607		138	138	-	138	-	-
080520-0708		<u>138</u>	<u>-</u>	<u>-</u>	<u>138</u>	<u>138</u>	<u>-</u>
Total Title IIA - Improving Teacher Quality		<u>276</u>	<u>138</u>	<u>-</u>	<u>276</u>	<u>138</u>	<u>-</u>
Title I - Regional Assistance Grant	84.010						
061570-0607		70,000	2,805	2,805	70,000	67,195	-
071570-0708		<u>70,000</u>	<u>-</u>	<u>-</u>	<u>67,700</u>	<u>70,000</u>	<u>2,300</u>
Total Title I Regional Assistance Grants		<u>140,000</u>	<u>2,805</u>	<u>2,805</u>	<u>137,700</u>	<u>137,195</u>	<u>2,300</u>
Title II Part D	84.318						
074240-2-1 Ed Tech Competitive Grant		<u>200,000</u>	<u>53,228</u>	<u>53,228</u>	<u>200,000</u>	<u>146,772</u>	<u>-</u>
Total passed through Michigan Department of Education		<u>2,272,431</u>	<u>290,863</u>	<u>1,035,512</u>	<u>1,382,370</u>	<u>1,236,781</u>	<u>145,274</u>
Total United States Department of Education		<u>2,272,431</u>	<u>290,863</u>	<u>1,035,512</u>	<u>1,382,370</u>	<u>1,236,781</u>	<u>145,274</u>
United States Department of Agriculture							
Passed through Michigan Department of Education							
Nutrition Cluster							
National School Lunch Program							
1960 Free and Reduced	10.555	6,032	-	-	6,032	6,032	-
1970 Breakfast	10.553	<u>1,759</u>	<u>-</u>	<u>-</u>	<u>1,759</u>	<u>1,759</u>	<u>-</u>
Total Nutrition Cluster		<u>7,791</u>	<u>-</u>	<u>-</u>	<u>7,791</u>	<u>7,791</u>	<u>-</u>

Manistee Intermediate School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - Continued

Year Ended June 30, 2008

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Original Approved Award/Grant Amount	Accrued Revenue July 1, 2007	Prior Year Expenditures	Current Year Receipts	Current Year Expenditures	Accrued Revenue June 30, 2008
USDA Commodities Entitlement	10.550	\$ 976	\$ -	\$ -	\$ 976	\$ 976	\$ -
Total United States Department of Agriculture		<u>8,767</u>	<u>-</u>	<u>-</u>	<u>8,767</u>	<u>8,767</u>	<u>-</u>
United States Department of Health and Human Services Passed Through Manistee ISD							
Medicaid - Outreach	93.778						
Manistee Intermediate School District		12,199	-	-	12,199	12,199	-
Bear Lake School District		2,463	-	-	2,463	2,463	-
Kaleva Norman Dickson School District		5,472	-	-	5,472	5,472	-
Manistee Area Public Schools		10,557	-	-	10,557	10,557	-
Onkama Consolidated School District		<u>2,384</u>	<u>-</u>	<u>-</u>	<u>2,384</u>	<u>2,384</u>	<u>-</u>
Total Passed Through Manistee ISD		<u>33,075</u>	<u>-</u>	<u>-</u>	<u>33,075</u>	<u>33,075</u>	<u>-</u>
Total U.S. Department of Health and Human Services		<u>33,075</u>	<u>-</u>	<u>-</u>	<u>33,075</u>	<u>33,075</u>	<u>-</u>
Total Federal financial assistance		<u>\$ 2,314,273</u>	<u>\$ 290,863</u>	<u>\$ 1,035,512</u>	<u>\$ 1,424,212</u>	<u>\$ 1,278,623</u>	<u>\$ 145,274</u>

Manistee Intermediate School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS PROVIDED TO SUBRECIPIENTS

Year Ended June 30, 2008

Program Title/Grant Number Subrecipient Name	CFDA Number	Subrecipient Award/ Contract Amount	Due To (From) Subrecipient July 1, 2007	(Memo Only) Subrecipients Prior Year Expenditures	Current Year Cash Transferred To Subrecipient	Subrecipient Current Year Expenditures	Due To (From) Subrecipient June 30, 2008
United States Department of Health and Human Services							
Medicaid - Outreach	93.778						
Passed through to:							
Bear Lake School District		\$ 2,463	\$ -	\$ -	\$ 2,463	\$ 2,463	\$ -
Kaleva Norman Dickson School District		5,472	-	-	5,472	5,472	-
Manistee Area Public Schools		10,557	-	-	10,557	10,557	-
Onkama Consolidated School District		<u>2,384</u>	<u>-</u>	<u>-</u>	<u>2,384</u>	<u>2,384</u>	<u>-</u>
Total passed through United States Department of Health and Human Services		<u>20,876</u>	<u>-</u>	<u>-</u>	<u>20,876</u>	<u>20,876</u>	<u>-</u>
Total Federal financial assistance provided to subrecipients		<u>\$ 20,876</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,876</u>	<u>\$ 20,876</u>	<u>\$ -</u>

Manistee Intermediate School District

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2008

- Note 1** The Schedule of Expenditures of Federal Awards is prepared using the accrual basis of accounting.
- Note 2** Management has reported that expenditures in this Schedule of Expenditures of Federal Awards are equal to those amounts reported in the annual or final cost reports. Unallowed differences, if any, have been disclosed to the auditor.
- Note 3** The financial reports, including claims for advances and reimbursements and amounts claimed or used for matching are timely, complete, accurate and contain information that is supported by the books and records from which the basic financial statements have been prepared. Grant receipts reported on the Schedule of Expenditures of Federal Awards, as passed through the Michigan Department of Education, reconcile to the Grant Section Auditor's Report (R7120). Unreconciled differences have been disclosed to the auditor.



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Education
Manistee Intermediate School District

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of *Manistee Intermediate School District* ("the School District"), as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements and have issued our report thereon dated October 10, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School District's financial statements that is more than inconsequential will not be prevented or detected by the School District's internal control. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2008-1 to be significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe the significant deficiency described in the accompanying Schedule of Findings and Questioned Costs is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The School District's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the School District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management, Board of Education, and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Dennis, Gartland & Niergarth

October 10, 2008



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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Education
Manistee Intermediate School District

Compliance

We have audited the compliance of *Manistee Intermediate School District* (the "School District") with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") Circular A-133 *Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2008. The School District's major Federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District's compliance with those requirements.

In our opinion, the School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2008.

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Internal Control Over Compliance

The management of the School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of School District internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The School District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the School District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Education, management, Michigan Department of Education, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Dennis, Gartland & Niergarth

October 10, 2008

Manistee Intermediate School District

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2008

CURRENT YEAR

Section 1 - Summary of Auditors' Results

1. The auditor's report represents an unqualified opinion on the financial statements of Manistee Intermediate School District (the "School District").
2. There was one material weakness in internal control reported as a result of the audit of the financial statements. See Section 2 - Findings in Accordance with Governmental Auditing Standards.
3. There were no compliance findings disclosed that were material to the School District's financial statements.
4. There were no significant deficiencies in internal control over major programs.
5. The report over compliance for the major program was unqualified.
6. There were no audit findings relative to the major program that are required to be reported.
7. The School District's major program was Special Education Cluster (CFDA #84.027 and #84.173).
8. The dollar threshold for distinguishing between Type A and Type B programs was \$300,000.
9. The School District does not qualify as a low risk auditee.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

Section 2 - Findings in Accordance with Governmental Auditing Standards

Finding Number 2008-1

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles ("GAAP"). This is a responsibility of the School District's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)

Condition: As is the case with many smaller and medium-sized entities, the School District has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the School District's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the School District's *internal* controls.

Cause: This condition was caused by the School District's decision that it is more cost effective to outsource the preparation of its annual financial statements to auditors than to incur the time and expense of obtaining the necessary training and expertise required for the School District to perform this task internally.

Effect: As a result of this condition, the School District lacks internal controls over the preparation of financial statements in accordance with GAAP and instead relies, in part, on its external auditors for assistance with this task.

Management's Response: The School District has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the School District to outsource this task to its external auditors and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Section 3 - Findings and Questioned Costs in Accordance with OMB Circular A-133

No findings or questioned costs.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

PRIOR YEAR

Finding Number 2007-1

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles ("GAAP"). This is a responsibility of the School District's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)

Condition: As is the case with many smaller and medium-sized entities, the School District has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the School District's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the School District's *internal* controls.

Cause: This condition was caused by the School District's decision that it is more cost effective to outsource the preparation of its annual financial statements to auditors than to incur the time and expense of obtaining the necessary training and expertise required for the School District to perform this task internally.

Effect: As a result of this condition, the School District lacks internal controls over the preparation of financial statements in accordance with GAAP and instead relies, in part, on its external auditors for assistance with this task.

Management's Response: The School District has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the School District to outsource this task to its external auditors and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Status: This finding is repeated for the year ended June 30, 2008.



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AUDIT-RELATED COMMUNICATIONS

To the Board of Education
Manistee Intermediate School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Manistee Intermediate School District (the "School District") for the year ended June 30, 2008, and have issued our report thereon dated October 10, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated August 11, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

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Compliance

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement applicable to each of its major Federal programs for the purpose of expressing an opinion on the School District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the School District's compliance with those requirements.

Internal Controls

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School District's financial statements that is more than inconsequential will not be prevented or detected by the School District's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School District's internal control.

We consider the following deficiencies to be a *material weakness* in internal controls:

Preparation of Financial Statements

The preparation of financial statements is the responsibility of the School District management and requires internal controls over both (1) recording, processing and summarizing financial data (i.e., maintaining internal books and records) and (2) reporting this financial data in the form of financial statements, including all related note disclosures (i.e., external financial reporting). The School District has historically relied on their independent external auditors to assist with the preparation of the financial statements and related note disclosures as part of its external financial reporting process. Accordingly, the School District's ability to adjust its books and records and prepare financial statements is based, in part, on its reliance on its external auditors who cannot, by definition, be considered a part of the School District's internal controls.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on September 3, 2008.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Manistee Intermediate School District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by Manistee Intermediate School District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statement in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Accumulated leave liability
Depreciation

We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

Risk Management
Commitments and Contingencies

No Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. In our opinion, none of the misstatements we proposed, whether recorded or unrecorded by the School District, either individually or in the aggregate, indicate matters that could have a significant effect on the School District's financial reporting process.

No Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 10, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Manistee Intermediate School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Education and management of Manistee Intermediate School District and is not intended to be and should not be used by anyone other than these specified parties.

To the Board of Education
Manistee Intermediate School District
Page 5

We are pleased to serve as the School District's auditors. If there are any questions about the audited financial statements or the contents of this letter, we would welcome the opportunity to discuss them at your convenience.

Dennis, Gartland & Niergarth

October 10, 2008